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FISCAL IMPACT STATEMENT

LS 6751 **NOTE PREPARED:** Jan 3, 2003
BILL NUMBER: HB 1385 **BILL AMENDED:**

SUBJECT: Firefighting Equipment and Grants.

FIRST AUTHOR: Rep. Bischoff **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill eliminates the Firefighting and Emergency Equipment Revolving Loan Fund (loan fund) and creates the Firefighting and Emergency Equipment Grant Fund (grant fund) administered by the Office of the State Fire Marshal. It repeals the Fire Safety Equipment Revolving Loan Account (loan account) in the Build Indiana Fund. The bill also releases the obligation of a loan recipient under the loan fund and the loan account to pay the remaining balance due on the principal plus interest of a loan.

This bill transfers funds remaining in the loan fund to the grant fund. The bill transfers $500,000 per month to the grant fund from the Lottery and Gaming Surplus Account in the Build Indiana Fund. It also provides that a fire protection territory may establish a cumulative building and equipment fund.

Effective Date: July 1, 2003.

Explanation of State Expenditures: Under the bill, the Firefighting and Emergency Equipment Revolving Loan Fund (FEERLF) would be replaced with a grant program. Monthly transfers of $500,000 from the Build Indiana Fund (BIF) and the balance remaining in FEERLF would endow the grant program. On June 30, 2002, the fund balance in FEERLF was $1,165,000. Annual receipts from the BIF would total $6 M, under the bill. Administrative expenses are paid from the grant program.

The proposed grant program would be subject to the same qualifications as the current loan program and an entity would not receive more than $200,000 within a four-year period. Assuming that only the funds from the BIF are used to make grants and that each grant is for the maximum $200,000, there would be 30 grants a year available. Transfers from the BIF to the new grant program would be made after the monthly allocation of $19,684,370 to the state General Fund Motor Vehicle Excise Tax Replacement Account (MVETRA) currently required in statute is made.

Background on the Build Indiana Fund (BIF): Resources Available to BIF **-** The Build Indiana Fund (BIF) receives funds from two sources: (1) surplus Lottery revenue and (2) revenues from gaming taxes and pari-mutuel taxes. Under current statute, surplus Lottery revenue in the Lottery Commission's Administrative Trust Fund is first transferred to the Teachers' Retirement Fund (TRF) and the Pension Relief Fund (PRF). Once these transfers are made, the remaining surplus Lottery revenue is distributed to BIF.

Current statute also requires distribution of revenue from the Riverboat Wagering Tax, the Pari-mutuel Wagering Tax, the Pari-mutuel Satellite Facility Tax, the Charity Gaming Excise Tax, and the Charity Gaming License Fee to BIF. Beginning in FY 2003, the total annual distribution to BIF from Lottery, gaming, and pari-mutuel sources is effectively capped at $250 M. (This is because current statute limits the annual distribution of Riverboat Wagering Tax revenue at an amount equal to $250 M minus the sum of the surplus Lottery revenue and revenue from other gaming and pari-mutuel taxes distributed to BIF during that fiscal year.)

Distributions from BIF **-** Under current statute, $236.2 M annually must be transferred from BIF to the Motor Vehicle Excise Tax Replacement Account (MVETRA) within the state General Fund. Money remaining in BIF after the MVETRA transfer is available for state and local capital projects. However, the 2001-2003 Biennial Budget (P.L. 291-2001) requires transfers of $200 M in FY 2002 and $175 M in FY 2003 from BIF to the Property Tax Replacement Fund (PTRF). In addition, the State Board of Finance (on April 8, 2002) approved an additional transfer of $247.3 M from BIF to the state General Fund during FY 2002. As a result, appropriations for capital projects during the current biennium totaling $242.5 M are suspended, and the balance in BIF has declined from $347.3 M on July 1, 2001, to $16.0 M on June 30, 2002. The $175.0 M transfer from BIF to PTRF for FY 2003 was made by the State Budget Agency on August 13, 2002. Consequently, the remaining resources in BIF during FY 2003 are expected to fund only $92.0 M of the required $236.2 M MVETRA transfer. As required under current statute, the $144.2 M shortage will be paid from the state General Fund. Ultimately, this is expected to leave no money in BIF to fund state and local capital projects during FY 2003.

After the $6 M annual transfer to the Firefighting and Emergency Equipment Grant Fund, the amount available for state and local capital projects is estimated to total about $7.8 M each year for FY 2004 and FY 2005 (see table below).

Surplus Lottery and Gaming Revenue & Distributions (Millions)*

Revenues & Distributions	**FY 2001 (Actual)**	**FY 2002 (Actual)**	**FY 2003 (Projected)**	**FY 2004 (Projected)**	**FY 2005 (Projected)**
Beginning Balance in BIF	$324.2	$347.3	$16.0	$0.0	$0.0
Surplus Lottery Revenue in Adm. Trust Fund	$160.0	$166.1	$166.1	$166.1	$166.1
TRF Transfer	($30.0)	($30.0)	($30.0)	($30.0)	($30.0)
PRF Transfer	($30.0)	($30.0)	($30.0)	($30.0)	($30.0)
Surplus Lottery Revenue to BIF	$100.0	$106.1	$106.1	$106.1	$106.1
Surplus Gaming Revenue to BIF	$268.2	$292.5	$143.9	$143.9	$143.9
Interest	$26.9	$13.7	$1.0	$0	$0
Total Resources in BIF	$719.3	$759.6	$267.0	$250.0	$250.0
MVETRA Transfer**	($234.7)	($236.2)	($92.0)	($236.2)	($236.2)
PTRF Transfer^	$0	($200.0)	($175.0)	$0	$0
GF Transfer^^	$0	($247.3)	$0	$0	$0
Amount Available for State & Local Capital Projects*^	$484.6	$76.1	$0	$13.8	$13.8
Amount Allotted to State & Local Capital Projects*^	$137.3	$60.1			

*Updated 10/18/02.
**The required transfer from BIF to MVETRA in FY 2003 is $236.2 M. The $144.2 M shortage is to be paid from the state General Fund.
^Transfers required under 2001-03 Biennial Budget (P.L. 291-2001).
^^Transfer approved by the State Board of Finance on April 8, 2002.
*^Actual totals in FY 2001 and FY 2002.

<u>Explanation of State Revenues:</u> Under current law, recipients of FEERLF loans repay the loan and interest on the loan at a rate determined by the Board of Finance, but not less than 2% below the prime interest rate. The revenues from loan principle and interest repaid are deposited in FEERLF and are available for reallocation. The balance of loans outstanding as of June 30, 2002, was $940,415, and loans pending totaled $470,000. Under the bill, these obligations would be released. Assuming that the prime interest rate is 5% and that the Board of Finance set the interest rate on FEERLF loans at 3%, the state would forego $42,300 of simple interest from loans outstanding and loans pending, in addition to the principle due.

Additionally, in P.L. 340-1995, no-interest loans were made to 20 entities from the BIF, Fire Safety Equipment Revolving Loan Fund. Under the bill, the remaining balance on these loans would be released. On October 2, 2002, the outstanding balance on these loans was $457,221.

Under the bill, any obligation released (including both principle and interest) would reduce the amount for which a grant recipient would qualify.

Explanation of Local Expenditures: Under current law, a volunteer fire department may charge for services in certain circumstances and may use the proceeds of the payment to repay the principle and interest on a FEERLF loan. Under the bill, these funds used to repay loans would be available for other purposes allowed in statute including deposit in the township firefighting fund or the purchase of equipment, buildings, or property for firefighting services.

Explanation of Local Revenues: Under the bill, a fire protection territory may establish a cumulative building and equipment fund (CBEF) with the approval of the legislative body of all units participating in the fire protection territory. (A fire protection territory is comprised of at least two contiguous taxing units where one unit provides fire protection to the other unit(s).) The tax rate limit for a CBEF is $0.0333 per $100 of assessed valuation.

There are six fire protection territories in Indiana with an assessed property value of $1.76 billion in 2002. Assuming that all six territories were to adopt the tax rate limit, revenues would amount to $584,969.

State Agencies Affected: Office of the State Fire Marshal, State Budget Agency.

Local Agencies Affected: *FEERLF loan recipients*: Shawawick Volunteer Fire Department (VFD), Dublin VFD, Bentonville VFD, Wayne Township, Lafayette Township Fire Department (FD), Liberty VFD, City of Alexandria, Centre Townhsip, German Township VFD, Lincoln Township, Noble Township, Scipio Township, Brooklyn VFD, Greenville Township, Curry Township Trustee, Boone Civil Township, and Hanna Civil Township. *Loans pending on 6/30/02*: Gaston VFD, Winona Lake, Greenville Township VFD, and Ogden Dunes VFD.

Loan Account: Greene County, Southwest VFD, Town of Mentone, Jackson County, Town of Vevay, Town of Little York, City of North Vernon, Henry Township VFD, LaOtto VFD, Swayzee VFD, Orange Township FD, Town of Dayton, Town of Milan, St. Paul, Clay Township, Aboite Township, Washington Township, Lake Township, Mexico County Fire Association, and Elberfeld.

Fire Protection Territories: South Franklin County Fire Protection Territory (FPT), Brownsberg FPT, Jac-Cen-Del FPT, Carr Township FPT, Clay Fire Township FPT, and Curry Fire Township FPT.

Information Sources: Bob Lain, State Budget Agency, (317) 232-3471; Mike Frick, Office of State Treasurer, (317) 232-6260; Mara Snyder, Office of the State Fire Marshal, (317) 233-5341.

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